

Message Text

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FM AMEMBASSY NEW DELHI
TO SECSTATE WASHDC 2647
INFO AMCONSUL BOMBAY

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E.O. 11652: N/A
TAGS: EAID, OTRA, IN
SUBJECT: HOUSE APPROPRIATIONS COMMITTEE STAFF VISIT:
STUDY OF WORLD BANK OPERATIONS

REF: STATE 155541

1. LAYTON AND SPARKS HELD RELAXED AND INFORMATIVE DISCUSSIONS WITH OFFICIALS OF THE MINISTRY OF FINANCE AND THE WORLD BANK RESIDENT MISSION IN NEW DELHI. THEY WERE SENSITIVE TO THE PECULIARITY OF AN ON-THE-SPOT INVESTIGATION OF WORLD BANK OPERATIONS IN A FOREIGN COUNTRY AND WERE CAREFUL IN THEIR APPROACH.

2. LAYTON DESCRIBED THE BROAD MANDATE GIVEN TO HAC SURVEY STAFF FOR THIS STUDY AND AT ONE POINT REFERRED TO FIVE SPECIFIC ISSUES RAISED BY CONGRESSMAN LONG WITHOUT SPECIFYING THEM (PRESUMABLY THOSE REPORTED IN MANILA 10902). THE ISSUE TO WHICH THEY GAVE GREATEST IMPORTANCE WAS THE DEGREE OF INFLUENCE OF THE BANK ON HOST COUNTRY POLICIES. THEY WERE PREDISPOSED TO BELIEVE THAT THAT INFLUENCE WAS SIGNIFICANT. IN INFORMAL TALKS WITH EMBOFF IT APPEARED THAT THEIR IMAGE OF THE BANK AS A WIELDER OF POWER LED TO TWO CONCLUSIONS: SUCH

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POWER SHOULD PREFERABLY BE EXERCISED BY THE US THROUGH BILATERAL AID, AND BANK POSED THE THREAT, AS IT GREW LARGER, OF BECOMING UNCONTROLLABLE. BANK OFFICERS HERE, MINISTRY OF FINANCE OFFICIALS AND EMBOFFS TOLD TEAM THAT HISTORY OF BANK OPERATIONS IN INDIA GAVE REPEATED EVIDENCE OF LIMITED ABILITY OF FOREIGN AID DONORS TO INFLUENCE GOI ECONOMIC POLICY.

3. TEAM ALSO GAVE PROMINENCE IN THEIR QUESTIONS TO THE SHIFT IN BANK LENDING TOWARDS BENEFITS FOR THE RURAL POOR AND AWAY FROM INFRASTRUCTURE. PHRASING OF QUESTIONS IMPLIED THAT SHIFT HAD GONE TOO FAR (PERHAPS TO STIMULATE RESPONSE OR BECAUSE OF THEIR INTEREST IN BANK'S POLICY INFLUENCE). BANK OFFICIALS AND GOI BOTH RESPONDED THAT SHIFT HAD MOVED BANK FROM AN UNDESIRABLE EXTREME POSITION TO A BETTER PROGRAMMING MIX.

4. IN MEETING WITH BANK REPS, LAYTON EXPRESSED THE STRONG VIEW THAT BANK SHOULD USE ITS OWN AUDITORS TO AUDIT BANK PROJECTS (AND BY IMPLICATION LOCAL PROJECT INSTITUTIONS). BANK REPS SAID THEY WERE CONSISTENTLY SATISFIED WITH INDEPENDENT AUDITS PERFORMED BY LOCAL AUDITING FIRMS.

5. WHILE LAYTON AND SPARKS ACKNOWLEDGED THAT THEY WERE NOT ECONOMISTS, SEVERAL OF THE ISSUES THEY RAISED IN RELATION TO BANK EFFECTIVENESS INEVITABLY REQUIRED JUSTIFICATION IN TERMS OF ECONOMIC THEORY. FOR EXAMPLE, THEY QUESTIONED WHY POOR FARMER WAS CHARGED GOING COMMERCIAL RATE FOR LOAN FINANCED BY IDA CREDIT. THEY WERE SIMILARLY INTERESTED IN THE DEFINITION OF THE POOR IN INDIA AND MINIMUM INCOME REQUIREMENTS.

6. FOR BOMBAY: PLEASE REPORT ANY SIGNIFICANT INFORMATION CONCERNING TEAM'S INTERESTS OR CONCLUSIONS DRAWN FROM TEAM'S MEETINGS WITH BANK-SUPPORTED INSTITUTIONS IN BOMBAY.

GOHEEN

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